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5 December 1973

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MEMORANDUM FOR:

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THROUGH : Chief, Southeast Asia Division

SUBJECT : Impact of the Destruction of Petroleum
Stocks at Nha Be

1. As you requested on 3 December, we have put together an initial analysis of the rocket attack on South Vietnam's largest civilian petroleum storage depot, together with some background on South Vietnam's overall requirements for POL. Unfortunately, neither our Branch nor the Logistics/Manpower Branch in the division has the specific information you requested on ARVN's POL situation, particularly with respect to stocks. However, two points lessen the immediacy of this question: 1) the US is supplying ARVN from its own stocks and is likely to continue doing so until other supply sources can be located; and 2) only a small share of the POL destroyed at Nha Be was ever intended for military use. A copy of our study is attached for your information and comments.

2. Reports continue to come in concerning the overall POL shortage in Southeast Asia, domestic measures to reduce consumption and obtain more supplies, and US plans and policies to aid the countries involved. We will continue to follow the situation closely should further questions arise.

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/Chief,
Economic Branch

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OER/S/EC:

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Impact of the Destruction of Petroleum Stocks at Nha Be

1. The 3 December rocketing of the nation's largest tank farm at Nha Be, six miles southeast of Saigon, worsened South Vietnam's already-tight petroleum supply situation. The Shell facilities were almost totally destroyed; Exxon and Caltex's tanks, however, were untouched. Estimates vary, but most reports put the destruction at 300,000-450,000 barrels,* equivalent to 9-12 days' normal civilian consumption and about one-third of the nation's stocks. A few reports indicate that as much as 600,000 barrels, one-half of civilian stocks, may have been burned. Most of the POL was apparently for civilian use. Only 67,000 barrels were consigned to the Vietnamese military, and an additional 25,000 barrels were scheduled for shipment to Cambodia.

2. Civilian consumption of petroleum products is around 13 million barrels annually, with roughly 30 days' civilian supply normally on hand in the country. These products are consumed primarily in electric power production, transportation, domestic cooking, and limited industrial uses. An estimated 80% of consumption occurs in the Saigon area. All POL is imported as refined products (the dollar

* Conversion factors are: one barrel equals 42 gallons; and one metric ton of POL is equivalent to about 7.3 barrels.

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amount approaching \$100 million this year), mostly from Singapore, which in turn obtains most crude supplies from the Arab countries. These imports are financed by the US through the Commodity Import Program (CIP). Under this system, South Vietnam purchases the POL, using its own foreign exchange, and then is reimbursed by the US. Because these products are not directly purchased by the United States, shipments have thus far not been severely hampered by the Arab boycott.*

3. The Vietnamese government has already implemented several measures to decrease civilian consumption since the attack. All gas stations in Saigon and most of the Delta were immediately ordered closed, ostensibly to allow the government to take inventory... The next day (4 December), stations were reopened with rationing instituted; little information is available as yet on the mechanics of

* The same is not true for petroleum supplies for the Vietnamese armed forces (RVNAF). Under the military system of financing, the US Department of Defense -- through the Military Assistance Support Fund -- buys the POL directly and, in essence, hands it over to the Vietnamese military. Because of the direct US role, these supplies were shut off, and RVNAF is currently being supplied (at a rate of around 20,000 barrels a day) from US military POL stocks in the Pacific. US officials are considering alternative methods of circumventing the boycott, one possible way being to fund the GVN directly so that it can contract for the POL without the US as middleman. GVN foreign reserves are not large enough to sustain independent financing for more than a few months.

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rationing.* Other government measures include closing all gas stations on Saturdays and Sundays, a reduction of the speed limit to 35 miles per hour, cutting street lighting by 50%, banning all electric advertising displays, and cutting electric power to government buildings by an additional 15% of past consumption (it had previously been cut by 25%).

4. These measures follow a series of directives over the past few weeks also aimed at reducing consumption, primarily through increases of the administered prices. Retail gasoline prices, presently around \$1 a gallon (still relatively cheap compared to prices in Western Europe), have tripled thus far this year, and further increases, as well as other more stringent government measures, are likely.

5. The effects on South Vietnam's economy will be serious but not catastrophic. Economic activity has been sluggish since the 1972 spring offensive and industrial power and fuel requirements thus remain relatively small.**

* Rationing of civilian gasoline and diesel fuels also is likely to produce even greater leakage from military stocks. Although impossible to estimate with any precision, illegal sales from the military to the private sector are believed to be substantial. The VC may also have to step up their POL purchasing efforts in the GVN economy.

** Moreover, the Vietnam Power Company estimates that it has enough fuel in its own stocks to maintain production for a month, longer if supplies can be stretched and power consumption reduced.

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The agricultural sector also consumes few petroleum products although the present peak season of rice milling and transport will require some priority allocations for this sector. In addition, as one clearly visible sign of decreasing private consumption, the infamous Hondas have increasingly given way to bicycles. Declining real incomes and rising prices also had already caused a small reduction in the use of kerosene as a cooking fuel, with many Vietnamese returning to the traditional fuels of charcoal and wood. These trends will now certainly be accelerated. The direct impact of the VC's most recent demonstration of its capabilities for disruption will likely be felt most seriously in two areas: 1) transportation, and 2) storage facilities.

6. Highway transport now carries most of Vietnam's freight, including virtually all of Saigon's food requirements: rice from the Delta; fruit and vegetables from Central Vietnam; and fish from the coasts. Commercial vehicles will receive top priority (probably after government vehicle needs are met) in the allocation of civilian motor fuels. Moreover, the GVN has demonstrated its willingness and ability to take over essential marketing activities if the private sector appears unable to provide needed supplies at reasonable prices. A few months ago, when a serious year-end

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rice shortage appeared almost certain, the government, primarily through the military, went into the Delta and took over much of the responsibility for rice purchasing; government retail outlets in Saigon and the northern section of the country also replaced most of the private outlets. Similar measures are likely in other commercial activities if private vehicles are unable to obtain adequate transport fuel, or if retail prices climb too high.

7. The outlook for finding other storage facilities is still unclear. As a result, tankers en route from Singapore were told to delay their arrival in Vietnam until decisions on where to put the POL could be made. The exact level of civilian stocks at the time of the attack also is unknown. Stocks may now be adequate only for about two weeks' consumption, or possibly three weeks if present conservation measures are successful. A pooling of all undamaged storage facilities and efficient management and movement of present stocks should get Vietnam through at least the next few weeks or so. By then, establishment of temporary floating storage, careful scheduling of future deliveries, the possible reopening of the huge former US petroleum storage depot at Cam Ranh, as well as possible US emergency shipments for the civilian sector, should at least assure the meeting of Vietnam's most essential energy requirements. Local shortages and even more hardships for

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many Vietnamese will occur, but the recent VC attack only adds one more burden -- not the final straw -- to Vietnam's troubled economy.

8. As has been the case for years, South Vietnam's future depends most heavily on two factors largely outside Saigon's own control: US economic and military aid; and Communist military intentions. The current level of military aid appears adequate; economic aid continues to decline -- particularly in terms of what it can buy on the world's inflationary markets -- but should be able to keep the economy afloat through next year. Non-US aid funding is also on the increase. The most important determinant thus remains the present and future military threat, and South Vietnam's ability to meet it. Until this question is resolved, the economy will likely continue to muddle through.

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